

Message Text

PAGE 01 SEOUL 03024 141127 Z

53

ACTION EB-11

INFO OCT-01 EA-11 ADP-00 AGR-20 AID-20 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02 L-03 H-02

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 IO-12 PA-03 PRS-01 USIA-12 RSR-01 /174 W

----- 053752

R 140739 Z MAY 73

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 7782

UNCLAS SEOUL 3024

E. O. 11652: N/A

TAGS: ECON, KS

SUBJECT: IS KOREAN ECONOMY OVERHEATING?

REF: A. SEOUL 2956 B. SEOUL -137 C. CERP

SUMMARY: EVIDENCE MOUNTS OF GROWING INDUSTRIAL AND INVESTMENT BOOM POSING THREAT TO STABILIZATION AND BALANCE OF PAYMENTS PROGRESS MADE IN 1972. WHILE ACTUAL PERFORMANCE DATA SO FAR IN 1973 ARE NOT PARTICULARLY ALRMING, CERTAIN ADVANCE INDICATORS (SUCH AS CONSTRUCTION PERMITS AND IMPORT LICENSES) SUGGEST OVERHEATING IS DEFINITE DANGER FOR SECOND HALF. CONTINUED EXPORT BOOM AND PRICE CONTROL EFFORTS HOWEVER, ARE LIKELY TO POSTPONE ANY SERIOUS PROBLEMS UNTIL 1974. END SUMMARY.

1. DATA FOR FIRST 3-4 MONTHS OF 1973 INDICATE SIGNIFICANT UPSWING IN OUTPUT AND INVESTMENT, RESULTING IN GROWING PRESSURES ON CREDIT, PRICES AND IMPORTS, WITH SOME COMMODITY SHORTAGES. BANK OF KOREA BUSINESS FORECAST INDEX SHOWS " OVERHEATED" SINGALS FOR NEARLY ALL CATEGORIES IN FEBRUARY AND MARCH. HOWEVER DEPUTY PRIME MINISTER RECENTLY MINIMIZED IMMEDIATE DANGER, SEEING NO NEED AT PRESENT FOR ANY ACTION TO COOL DOWN THE ECONOMY. OFFICIALS ARE NEVERTHELESS CONCERNED AND WATCHING FOLLOWING ASPECTS CLOSELY.

UNCLASSIFIED

PAGE 02 SEOUL 03024 141127 Z

2. OUTPUT: INDUSTRIAL PRODUCTION IN FIRST QUARTER WAS 31 PERCENT HIGHER THAN SLOW YEAR- EARLIER QUARTER AND 8 PERCENT HIGHER THAN SLOW YEAR- EARLIER QUARTER AND 8 PERCENT HIGHER THAN LAST 1972 QUARTER SEASONALLY ADJUSTED. IDLE CAPACITY IS

DISAPPEARING AND INVESTMENT DEMAND IS UP SHARPLY. TOTAL CONSTRUCTION PERMITS IN FIRST QUARTER WERE 76 PERCENT LARGER IN AREA THAN YEAR EARLIER, WITH INDUSTRIAL CONSTRUCTION UP 266 PERCENT. NO ESTIMATE OF FIRST QUARTER GNP IS AVAILABLE BUT OFFICIALS PUBLICLY EXPECT 1973 GNP TO RISE FASTER THAN 9.5 PERCENT REAL GROWTH RATE FORECAST IN JANUARY. SOME EXONOMISTS NOW PRIVATELY ESTIMATE 13 PERCENT GNP GROWTH RATE, AFTER " SLOW GROWTH" OF ONLY 7 PERCENT IN 1972.

3. IMPORTS: DUE TO REVISION OF TARIFF CODE ONLY PRELIMINARY CUSTOMS DATA FOR FIRST TWO MONTHS ARE AVAILABLE. THILE IMPORTS WERE 41 PERCENT HIGHER THAN LOW YEAR- EARLIER IMPORTS. THEIR ABSOLUTE LEVEL APPROXIMATED THAT OF LAST 10 MONTHS OF 1972. MUCH MORE WORRIESOME IS \$929 MILLION IN IMPORT LICENSES GRANTED IN FIRST QUARTER, EQUAL TO 2.7 TIMES 1972 FIRST QUARTER LEVEL AND 1.9 TIMES LAST QUARTER 1972. OFFICIALS GIVE SPECIAL REASONS FOR UNUSUAL INCREASE: LARGE GRAIN IMPORTS; STOCKPILING OF SCARCE COMMODITIES, SUCH AS LOGS AND SCRAP IRON; SHARP COMMODITY PRICE INCREASES: EARLY UTILIZATION OF ANNUAL QUOTA OF BANK CREDITS FOR EQUIPMENT IMPORTS: AND SOME IMPORT LIBERALIZATION IN FEBRUARY AND MARCH. HOWEVER, 1973 IMPORTS ARE NOW CLEARLY EXPECTED TO INCREASE BY MORE THAN OFFICIAL FORECAST OF 21 PERCENT, DUE TO EXPORT AND DOMESTIC BOOMS AND EXTERNAL PRICE INCREASES AND REVALUATIONS.

4. EXPORTS. CUSTOMS DATA NOT AVAILABLE BUT LESS RELIABLE MCI SERIES SHOWS 60 PERCENT INCREASE FOR FIRST FOUR MONTHS COMPARED YEAR EARLIER, AND EXPORTS ARE NOW EXPECTED TO EXCEED 30.6 PERCENT INCREASE FORECAST FOR 1973, PARTLY DUE TO CURRENCY CHANGES. WHILE SOME EXPORTS, SUCH AS STEEL BARS, HAVE BEEN LIMITED TO MEET DOMESTIC NEEDS, OTHERS, SUCH AS CEMENT AND COTTON FABRICS, HAVE BENEFITTED FROM JAPANESE SHORTAGES.

5. FOREIGN EXCHANGE BALANCE: GROSS HOLDINGS INCREASED \$68 MILLION TO \$762 MILLION ON APRIL 30 (PRELIMINARY). WE UNDERSTAND FOREIGN LIABILITIES DECREASED, INCREASING NET ASSETS EVEN UNCLASSIFIED

PAGE 03 SEOUL 03024 141127 Z

MORE. FAVORABLE FACTOR HAS BEEN SIZABLE SURPLUS ON INVISIBLE ACCOUNT, PARTLY DUE TO TOURISNT BOOM AND CONTRARY TO PESSIMISTIC FORECAST OF SIZABLE 1973 DEFICIT. OFFICIALS HOPE TOTAL 1973 FOREIGN EXCHANGE INCREASE WILL EXCEED \$85 MILLION FORECAST BUT RECOGNIZE PROBLEM OF RESTRAINING IMPORT DEMAND IN REMAINDER OF YEAR.

6. CREDIT: AS REPORTED REF A, BUSINESS DEMAND FOR CREDIT IS STRONG AND WILL CONTRIBUTE TO EXCEEDING OF MID- YEAR IMF DOMESTIC CREDIT CEILING. INTENSITY OF DEMAND FOR CREDITS TO IMPORT EQUIPMENT FOR EXPORT PRODUCTION HAS BEEN HIGHLIGHTED BY APPLICATIONS TOTTALLING \$700 MILLION FOR FOREIGN AND DOMESTIC BANK CREDITS ORIGINALLY LIMITED TO \$205 MILLION FOR YEAR AND NOW INCREASED TO \$380 MILLION, USE OF SUPPLIER CREDITS MAY BE

LIMITED LATER IN YEAR BY IMF 500 MILLION CEILING ON NEW
3-15 YEAR NON- BANK FOREIGN BORROWING. SOME RELIEF WILL BE
PROVIDED BY INCREASED FOREIGN INVESTMENT RECEIPTS AND NEW
FLOTATIONS ON BOOMING STOCK MARKET, BUT OVERALL INVESTMENT
FINANCING WILL PROBABLY BECOME INCREASINGLY DIFFICULT AS
YEAR PROGRESSES.

7. PRICES: WHOLESALE PRICES ROSE 0.7 PERCENT IN APRIL.
BRINGING 1973 INCREASE TO 1.9 PERCENT. INCREASE OF 3 PERCENT,
WHICH IS GOVERNMENT GOAL FOR ENTIRE YEAR, NOW SEEMS LIKELY TO
BE REACHED BY MID- YEAR. AS REPORTED REF B, EXTERNAL RAW MATERIAL
PRICES HAVE BEEN PRIME INFLATIONARY AGENT TO DATE, AND MATERIAL
SHORTAGES ARE PLAGUING SOME INDUSTRIES. CONSUMER PRICE INDEX
IS STILL STABLE, PRIOR TO SEASONAL RISE THROUGH JULY.
DESPITE GOVERNMENT SUCCESS IN GREATLY SLOWING RATE OF INFLATION,
THE PERSISTENCE OF INFLATIONARY PSYCHOLOGY IS SEEN IN RISING
REAL ESTATE PRICES AND SPECULATION. PRESSURES FOR HIGHER WAGES,
DUE IN PART TO SKILL SHORTAGES AND DEMANDS OF CERTAIN UNIONS,
POSE SOME THREAT TO GOVERNMENT OBJECTIVE OF LIMITING ALL WAGE
INCREASES TO PRODUCTIVITY INCREASES, SO AS TO AVOID PRICE INCREASES.
WHILE SOME FIRMS COULD GRANT 15-20 PERCENT WAGE INCREASES
ON THIS BASIS, ALL SECTORS OBVIOUSLY COULD NOT AND GOVERNMENT
HAS REPORTEDLY ASKED UNIONS AND PRESS TO COOPERATE IN NOT
PUBLICIZING WAGE INCREASES.

8. COMMENT: ACTUAL PERFORMANCE OF ECONOMY IN FIRST FEW MONTHS
(IN TERMS OUTPUT, BALANCE OF PAYMENTS AND PRICE INDICES)
UNCLASSIFIED

PAGE 04 SEOUL 03024 141127 Z

WAS GENERALLY FAVORABLE, REPRESENTING CONTINUED BUSINESS
RECOVERY AGGRAVATED BY EXTERNAL PRICE INCREASES.
SUDDEN INCREASE IN INVESTMENT DEMAND (AS MANIFESTED IN CONSTRUCTION
PERMITS, IMPORT LICENSES AND EQUIPMENT CREDITS) IS WORRIESOME,
HOWEVER, AND POSES CLEAR DANGER OF OVERHEATING IN SECOND HALF.
GOVERNMENT MAY BE RELUCTANT TO RESTRAIN INVESTMENT IN NEW
FACILITIES IN VIEW OF CURRENT EMPHASIS ON FUTURE GROWTH AND
HEAVY INDUSTRY TARGETS. INEVITABLE CHOICES BETWEEN EXPANSION
AND STABILIZATION IN COMING MONTHS WILL DETERMINE WHETHER
BALANCE OF PAYMENTS DANGERS AND RAPID INFLATION CAN BE AVOIDED
IN 1974.
HABIB

UNCLASSIFIED
NMAFVVZCZ
<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: X
Capture Date: 10 MAY 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 14 MAY 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973SEOUL03024
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: n/a
From: SEOUL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730560/abqcehzx.tel
Line Count: 153
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: A. SEOUL 2956 B. SEOUL -137 C. CERP
Review Action: RELEASED, APPROVED
Review Authority: martinjw
Review Comment: n/a
Review Content Flags:
Review Date: 22 OCT 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22-Oct-2001 by kuehnbc0>; APPROVED <05-Feb-2002 by martinjw>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> mcm 980209
Subject: IS KOREAN ECONOMY OVERHEATING?
TAGS: ECON, KS
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005